Briefing paper options to address unforeseen events

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The objective of this paper is to provide a reflection on possible short term and longer-term actions to improve the EU budget's capacity to respond to unforeseen events this year and the subsequent years. A number of "asymmetric shocks" on the EU due to global instability, migration flows, economic shocks or climatic events are possible, while the EU budget has not been designed to face such events effectively. The existing margins of manoeuvre for the EU budget to respond to unforeseen events are limited. The margins available for the 2017-2020 period are lower than the level of funds mobilised between 2014 and 2016.

The MFF provides for more flexibility than in the past to react to unforeseen circumstances via margins as well as individual special instruments. While flexibility expanded, the unprecedented level of unforeseen events has put the budget under strain. The next tables summarise the present ability of the MFF to react to unforeseen circumstances. The possibilities of reprioritization within the individual headings of the MFF are excluded. Also, trust funds designed outside of the MFF are excluded as well, even though some trust funds are – partly – financed via the MFF.

Existing flexibility options within the MFF	
Use of margins	The remaining margins in the MFF provide for the ability to react to unforeseen circumstances by shifting money within the ceilings of individual headings of the MFF. Total remaining margins for the 2017-20 period were estimated at 5 bln at the time of the adoption of the 2016 budget. More than 50% of this amount remains in administrative expenditure. In other individual headings (most affected by unforeseen circumstances) programmed margins are low.
Budgetary neutral instruments within the MFF	The Global Margin for Payments, Global Margin for Commitments and the Contingency Margin instrument are all budgetary neutral and do not affect the total amount of commitments and payments during the 2014-2020 MFF period. By shifting commitments or payments between years they provide for the ability to react to changes in implementation rhytm of current programmes. Insofar as margins can be frontloaded or safeguarded, the Global Margin for Commitments and the Contingency Margin allow for financing for unforeseen circumstances. For example, the Contingency Margin allows an increase in commitment or payment ceilings of at maximum 0,03% GNI (= 4,4 bln in 2016) to be offset with future ceiling reductions. It was used in 2014 for payments to be offset in equal reductions in 2018, 2019 and 2020.
Special instruments	The special instruments are designed to react to unforeseen circumstances and can be applied to individual headings of the MFF. Except for the flexibility instrument, they can only be used for the specific goals they have been designed for. The following amounts are still available in the 2017-20 period:

	- Flexibility Instrument, 1.4 bln (in total or per year; can be applied to all headings) - EU Solidarity Fund, 2.3 bln (in total or per year; response to major disasters. - European Globalization Adjustment Fund, 0.7 bln (in total or per year; fund to support workers affected by structural changes in the economy) - Emergency Aid Reserve, 1.3 bln (in total or per year; for emergency aid outside EU)

It is important to mention that instruments were not designed to be used simultaneously and are not necessarily reinforcing each other. While the Contingency Margin Instrument allows for commitments and payments to be made available in one year, subject to offsetting in later years, the Global Margin for Commitments safeguards margins and underexecution of the previous year to be made available in later years The latter also depends on the existence of unused payment appropriations in the preceding year, which can be a limiting factor.

However, some further financial potential can be drawn in the short term by addressing existing unnecessary rigidities in the budget. There is a need to expand the funding possible for pressing needs, but this would require further flexibility or reforms. The tables present the reforms that can take place without major changes in the MFF and a more in debt change that would require a major negotiation.

Immediate reform options expenditure side	
Allow for unspent margins to be redeployed to other headings.	Unspent margins of any budget line cannot be accessed easily, leading to situations that unspent margins in those policies cannot be redeployed for emergencies in other headings. This should be reconsidered and would require amendment of the MFF regulation..
Use of decommitments	Decommitments under the n+2 rule could be used for emergencies. This would require an amendment of the Financial Regulation. Attention has to be given to the fact that the reason payment appropriations are lower than commitments in the budget, is based on assumptions on the level of undercommitted funds. Changes will affect the required payment appropriations.
Expanding the use of financial instruments	Those instruments are not the best instruments for rapid reaction in times of crisis and can often not substitute grants. However, more efforts can be done to further identify areas were subsidies could be reduced in favour of such instruments, freeing more funds for grants for pressing needs.
Expanding the use of Trust Funds	Setting up trust funds outside the MFF for exceptional needs is a quick option. The strength is the immediacy, but the weakness is to have member states commit funding to those, but they also bypass the European Parliament, which can be controversial.

Immediate reform options revenue side	
Retain surplus	Allow the funds from unspent margins (the surplus) to be used as a reserve to cover exceptional needs. In 2015 the surplus from unspent margins in the 2014 budget mounted to 1,4 bln. This would require an amendment of the Financial Regulation.
Retain funds from sanctions, fines and penalties	Allow the funds recovered from sanctions, fines and penalties to be used as a reserve to cover exceptional needs. In 2015 alone over €2 bln were collected to then be redistributed to member states. This would require an amendment of the Financial Regulation.
Keep TOR and VAT revenues that exceed expectations in a reserve.	Higher resources from the traditional own resources (custom tariffs) and VAT, are compensated with lower GNI contributions to member states. The funds could be used to develop an emergency fund. A problem arises if those revenues fall.

The changes above are adaptations at the margins and will unlikely cater for large demands. External funding mechanisms, such as the Trust Funds, may be needed to cater for such expenditure items as the commitment to the Turkey Refugee Facility, which in total amounts to €6 billion, on the first 3 bln €1 billion will be guaranteed by the budget and €2 billion by bilateral contributions of member states, on the remaining amount no decision has been taken. In the long term and namely for the next MFF a better approach would be needed, which is presented below.

Reform option	Rationale
Creation of a financial budget line for unforeseen events	A rational option would to create an actual strong financial budget line for unforeseen events (above €10 bln). The logic would be similar to the Solidarity Fund, but should be an actual fund with budgetary funds blocked, such as the budget does for the EFSI reserve. It would be quickly deployable and within the budget ceilings of the MFF. the rules should be strict on its use and only allow action for serious unforeseen events affecting the Union as a whole or several member states in combination. It would also be subject to co-decision. The fund should not be used for balance of payments support[1] or to replace support for emergency aid in agriculture or to cover the RAL. This fund would be replenished year by year with unspent funds rolled over. Surpluses, sanctions, fines and penalties could also be used to maintain it or increase it. Depending on the design, decision-making on such a financial budget line for unforeseen events would likely require unanimity.

1 The EU budget should not be used for this, only the ESM – the EFSM should no longer exist. The BoP and MFA instruments should both be guaranteed by funds in the heading for external action.